

Message Text

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ACTION EA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-01 INR-05 L-02

NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02 SS-15

USIA-06 SAJ-01 NIC-01 NSCE-00 AID-05 COME-00 EB-07

FRB-01 TRSE-00 XMB-02 OPIC-03 CIEP-01 LAB-04 SIL-01

OMB-01 FEA-01 INT-05 STR-01 /087 W

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R 170015Z DEC 74

FM USLO PEKING

TO SECSTATE WASHDC 2975

INFO AMEMBASSY TAIPEI

AMEMBASSY TOKYO

AMCONSUL HONG KONG

CINCPAC

C O N F I D E N T I A L PEKING 2293

NOFORN

E.O. 11652: GDS

TAGS: ETRD, CH, JA

SUBJECT: RECENT SINO-JAPANESE TRADE DEVELOPMENTS

SUMMARY: DUE TO CHINA'S CONCERN OVER ITS TRADE DEFICIT WITH JAPAN THIS YEAR, A WORKING LEVEL MITI MISSION RECENTLY VISITED PEKING. HOWEVER, NOTHING EMERGED FROM THE TALKS TO ALTER THE PICTURE, AT LEAST FOR 1974. THE JAPANESE WILL SEND OFFICIAL DELEGATIONS TO CHINA NEXT YEAR TO LOOK AT THE PRC PETROLEUM AND POWER INDUSTRIES. JAPAN MAY NOT BE ABLE TO TAKE DELIVERY OF ALL OF THE 4.9 MILLION TONS OF CHINESE OIL SCHEDULED FOR SHIPMENT TO JAPAN THIS YEAR. HOWEVER THE TWO SIDES HAVE AGREED ON A SUPPLY OF AT LEAST 8 MILLION TONS NEXT YEAR. THE CHINESE RECENTLY POSTPONED DELIVERY AND ASKED FOR CREDIT ON \$130 MILLION OF JAPANESE STEEL ORIGINALLY ORDERED FOR 1974. END SUMMARY.

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1. IN MEETING WITH USLO OFFICER DECEMBER 13, JAPANESE EMBOFF

PROVIDED FOLLOWING INFORMATION ON A RECENT MITI MISSION TO PEKING AND ON OTHER SINO-JAPANESE TRADE DEVELOPMENTS.

2. MITI MISSION - UNDER THE SINO-JAPANESE TRADE AGREEMENT, THERE WAS TO BE A MEETING THIS MONTH OF A SINO-JAPANESE MIXED COMMISSION FOR AN ANNUAL REVIEW OF JAPAN-PRC TRADE. DUE TO SCHEDULING DIFFICULTIES FOR HIGH LEVEL JAPANESE TRADE OFFICIALS, THE TALKS WERE POSTPONED UNTIL EARLY NEXT YEAR. HOWEVER, BECAUSE OF CHINESE CONCERN AT THE GROWING DEFICIT IN PRC TRADE WITH JAPAN THIS YEAR, JAPAN'S MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY (MITI) SENT A WORKING-LEVEL MISSION TO PEKING IN EARLY DECEMBER TO REVIEW THE SITUATION.

3. ALTHOUGH THE JAPANESE FEARED THAT CHINA'S MINISTRY OF FOREIGN TRADE (MFT) WOULD PUT FORWARD STRONG DEMANDS FOR ACTION TO REDUCE THE TRADE GAP, WHICH THE CHINESE SAID HAD REACHED \$140 MILLION IN JAPAN'S FAVOR BY THE END OF OCTOBER, MFT STRUCK A REASONABLE POSTURE DURING THE MEETINGS AND INDICATED THAT TRADE NEED NOT BE BALANCED EVERY YEAR, THOUGH A LONG TERM GOAL OF BALANCED TRADE WAS DESIRABLE. THE TALKS THEN FOCUSED ON FOUR MAIN AREAS: TEXTILES, RAW SILK, PETROLEUM AND COAL.

4. ON TEXTILES, THE TWO SIDES DISCUSSED \$250 MILLION OF OUTSTANDING PRC EXPORT CONTRACTS FOR WHICH JAPANESE FIRMS HAVE BEEN UNABLE TO OPEN LETTERS OF CREDIT. SOME OF THESE CONTRACTS WERE RENEGOTIATED AT AND FOLLOWING THE RECENT CANTON FAIR. MITI EXPLAINED THAT LARGE INVENTORIES AND SOFTENING DEMAND IN JAPAN MADE IT IMPOSSIBLE TO TAKE DELIVERY ON THE CONTRACTS NOW, AND MFT EXPRESSED ITS UNDERSTANDING ON THIS POINT. THE CHINESE WERE LESS UNDERSTANDING OF JAPAN'S CURRENT EMBARGO ON SILK IMPORTS WHICH HAS TEMPORARILY HALTED BILATERAL TRADE IN THAT COMMODITY. IN THE END, HOWEVER, MFT EXPRESSED SYMPATHY FOR JAPANESE SILK GROWERS AND DID NOT PRESS THE ISSUE.

5. CONCERNING OIL, MFT PLEDGED TO PROVIDE 8 MILLION TONS TO JAPAN NEXT YEAR AND SAID CHINA MIGHT BE ABLE TO DELIVER MORE ALTHOUGH NO COMMITMENT COULD BE GIVEN AT THIS TIME. THE CHINESE ALSO SAID THEY ARE OFFERING OIL TO A NUMBER OF OTHER NATIONS BUT DID NOT ELABORATE. ON CHINESE COAL, WHICH JAPAN WOULD

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VERY MUCH LIKE TO IMPORT MFT SAID CHINA NOW HAS PROBLEMS MEETING DOMESTIC REQUIREMENTS AND WILL NOT BE ABLE TO EXPORT SIGNIFICANT QUANTITIES FOR SOME TIME TO COME.

6. DURING THE TALKS IT WAS AGREED THAT TWO JAPANESE GOVERNMENT MISSIONS WOULD VISIT CHINA NEXT YEAR. ONE WILL TAKE A BROAD LOOK AT THE PRC OIL INDUSTRY AND DISCUSS FUTURE TRADE IN THAT AREA BETWEEN THE TWO COUNTRIES. A SECOND WILL LOOK AT THE PRC

POWER INDUSTRY. THESE WILL INCLUDE PRIVATE INDUSTRY PERSONNEL, BUT WILL BE CLASSIFIED AS OFFICIAL MISSIONS.

7. OTHER SUBJECT DISCUSSED BY THE JAPANESE EMBOFF WERE THE FOLLOWING:

A. PRC OIL DELIVERIES IN 1974 - ALTHOUGH CHINA IS SCHEDULED TO SHIP 4.9 MILLION TONS OF OIL TO JAPAN BY THE END OF 1974, IT IS NOW DOUBTFUL THAT ALL OF THIS WILL BE DELIVERED. THE DIFFICULTY ARISES ON THE JAPANESE SIDE, WHICH HAS STOCKS OF THREE MONTHS' CONSUMPTION ON HAND AND MAY NOT BE ABLE TO ABSORB THE FULL AMOUNT OF FOURTH-QUARTER DELIVERIES WHICH THE TWO SIDES ORIGINALLY AGREED UPON. THE EMBOFF DID NOT HAVE FIGURES ON HOW MUCH OIL THE PRC WILL DELIVER TO JAPAN THIS YEAR, BUT HE ADDED THAT JAPAN WILL HAVE NO DIFFICULTY IN TAKING AT LEAST 8 MILLION TONS NEXT YEAR.

B. JAPANESE BUSINESS AT THE FALL CANTON FAIR - ASKED ABOUT RECENT PRESS REPORTS THAT SINO-JAPANESE CONTRACTS REACHED \$260 MILLION AT THE RECENT CANTON FAIR, THE EMBOFF SAID GOJ ESTIMATES CONTINUE TO PUT THE TOTAL IN THE VICINITY OF \$150 MILLION. THE \$260 MILLION FIGURE HAS BEEN ISSUED BY THE JAPANESE INTERNATIONAL TRADE PROMOTION ASSOCIATION (JITPA) WHICH TENDS TO INFLATE ITS FIGURES, HE SAID. HE SPECULATED THAT JITPA MAY HAVE COUNTED THE SIZEABLE TEXTILE CONTRACTS WHICH WERE SIGNED EARLIER BUT WERE MERELY RENEGOTIATED AT THE RECENT FAIR (SEE PARA 4 ABOVE).

C. RECENT STEEL MISSION TO PRC - A DELEGATION FROM JAPAN'S FOUR LEADING STEEL FIRMS VISITED PEKING AT THE END OF NOVEMBER. IT WAS ORIGINALLY HOPED THIS DELEGATION WOULD NEGOTIATE JAPANESE DELIVERIES OF STEEL TO CHINA FOR THE FIRST HALF OF 1975. INSTEAD THE DELEGATION ARRANGED, AT CHINESE REQUEST, TO POSTPONE
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UNTIL EARLY 1975 DELIVERY OF \$130 MILLION OF STEEL PRODUCTS SCHEDULED FOR SHIPMENT TO CHINA BEFORE THE END OF THIS YEAR. THE DELEGATION ALSO AGREED TO ACCEPT SIX MONTH DEFERRED PAYMENTS FOR THE STEEL; NO AGREEMENTS WERE REACHED ON FURTHER DELIVERIES FOR 1975.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TRADE AGREEMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 17 DEC 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974PEKING02293
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740366-0182
From: PEKING
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741229/aaaaaylm.tel
Line Count: 160
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 22 JUL 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <22 JUL 2002 by shawdg>; APPROVED <24 MAR 2003 by ElyME>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: RECENT SINO-JAPANESE TRADE DEVELOPMENTS SUMMARY: DUE TO CHINA'S CONCERN OVER ITS TRADE DEFICIT
TAGS: ETRD, CH, JA
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005